

THE NATIONAL BANKING SYSTEM.

circulation of the existing banks. The banks were very prudently conducted when the war cloud first threatened, but they were soon confronted by a real demand for additional circulation to take the place of the gold which disappeared with the suspension of specie payments. The circulation of the country outside the Treasury, which had been \$448,405,767 on July 1, 1861, had declined to \$334,697,744 on July 1, 1862. The entire mass of specie in circulation on the earlier date, which was \$246,400,000, had disappeared, except about \$25,000,000 on the Pacific Coast. United States notes and demand notes had been pumped into the circulation to the amount of \$125,905,665, but they did not fill the void left by the flight of gold and silver. The scarcity of currency was more than remedied by July 1, 1863, when the total had been swelled to \$595,394,038, of which \$312,481,418 was in United States notes and \$238,677,218 in the notes of the State banks. The circulation of the latter had increased about \$53,000,000 within the year.

Secretary Chase inquired in his first annual report in the autumn of 1861 whether, as the bank-note circulation constituted a loan without interest from the people to the banks, sound policy did not require that the advantages of this loan be transferred, in part at least, from the banks, representing only the interest of the stock-holders, to the government, representing the aggregate interest of the whole people. The Secretary suggested that Congress had power to control the credit circulation, and that circulating notes might be issued under national authority and secured by the pledge of United States bonds. He outlined the advantages of his proposed measure thus:

Its principal features are, (1st) a circulation of notes bearing a common impression and authenticated by a common authority ; (2d) the redemption of these notes by the associations and institutions to which they may be delivered for issue ; and (3d) the security of that redemption by the pledge of United States stocks, and an adequate provision of specie.

In this plan the people, in their ordinary business, would find the